The Borden Company

ESTABLISHED 1857

AND ALL SUBSIDIARY COMPANIES

ANNUAL REPORT

For the fiscal year ended December 31, 1933

New York *March 1934*

THE BORDEN COMPANY

DIRECTORS

Howard Bayne
Lewis M. Borden
L. Manuel Hendler
Albert T. Johnston
Robcliff V. Jones
John Le Feber
Edward B. Lewis
John W. McConnell
Donald Mackenzie
Albert G. Milbank
Arthur W. Milburn
Beverley R. Robinson
Stanley M. Ross
Wallace D. Strack

OFFICERS

Albert G. Milbank, *Chairman Board of Directors*
Arthur W. Milburn, *Chief Executive and Chairman Executive Committee*
Albert T. Johnston, *President*
Wallace D. Strack, *Executive Vice-President*
Patrick D. Fox, *Vice-President*
Edward B. Lewis, *Vice-President*
Walter Page, *Vice-President*
Ralph D. Ward, *Vice-President*
George M. Waugh, Jr., *Vice-President*
Everett L. Noetzel, *Treasurer*
Walter H. Rebman, *Secretary*
St. John W. Davis, *General Controller*
George Bittner, *Assistant Treasurer*
Harold K. Kramer, *Assistant Treasurer*
Frederick W. Schwarz, *Assistant Treasurer*
Theodore D. Waibel, *Assistant Secretary*

EXECUTIVE OFFICES

The Borden Company
350 Madison Avenue, New York City
(Subsidiary and Territorial Offices not included)

REGISTERED OFFICE

15 Exchange Place, Jersey City, N. J.

Transfer and Dividend Disbursing Agent
The Chase National Bank of the City of New York
11 Broad Street, New York City

Registrar, Bankers Trust Company, 16 Wall Street, New York City
Counsel, Milbank, Tweed, Hope & Webb, 15 Broad Street, New York City
Auditors, Haskins & Sells, 22 East 40th Street, New York City

CORPORATE ORGANIZATION AND SCOPE

The business of the Company falls into four general divisions. In conformity with this there were created during the year 1929 four major sub-holding companies to conduct and co-ordinate the operations of these four general divisions. For similar reasons and because of the extent of operations throughout all of Canada, which operations embrace the activities of all four general divisions, Borden's Ltd, a Dominion Corporation, was organized in 1930.

The Borden Company owns 100% of the stock of these major sub-holding companies, and of Borden's Ltd, each of which companies, in turn, owns 100% of the stock of the operating companies coming under its control.

The four major sub-holding companies are as follows:—

BORDEN'S FOOD PRODUCTS COMPANY, INC. ***Food Products Group***—manufacture and sale since 1857 of Eagle Brand as well as other brands of condensed milk; also evaporated, malted and dry milk; casein products, caramels, mince meat, dried fruit juices, etc.

Business of the above nature is conducted throughout the United States, Canada and in Export Markets.

BORDEN'S DAIRY PRODUCTS COMPANY, INC. ***Fluid Milk Group***—purchase and distribution by a system of wagon deliveries of milk, cream, butter, eggs, etc.

Business of the above nature is conducted in the States of Arizona, California, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, Wisconsin, and in the Provinces of Ontario and Quebec in Canada.

BORDEN'S ICE CREAM & MILK COMPANY, INC. ***Ice Cream Group***—manufacture and sale of ice cream and allied products.

Business of the above nature is conducted in the States of California, Connecticut, Delaware, Illinois, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, West Virginia, Wisconsin, and in the Provinces of Ontario and Quebec in Canada.

BORDEN'S CHEESE & PRODUCE COMPANY, INC. ***Produce Group***—purchase, production and sale of farm produce (butter, eggs, etc.) as a source of supply for our own wagon distribution and at wholesale; also manufacture and sale of package, loaf, bulk and fancy cheeses.

Business of the above nature is conducted throughout the United States, Canada and in certain Export Markets.

To the Stockholders of The Borden Company:

There are presented herewith Financial Statements, together with Auditors' Certificate of Messrs. Haskins & Sells, setting forth the Operating Results for 1933 and the condition of the Company at the close of that year.

Unprecedented in its effect upon all business, the year 1933 was particularly oppressive in its effect upon the dairy industry.

Lack of control of surplus raw milk production, with much control, State and Federal, of the activities, including price structures in many markets, of companies purchasing and distributing this excessive production in the form of fluid milk and cream, resulted in the most chaotic and altogether unsatisfactory situation with which the milk distributing industry has ever had to cope.

Conditions throughout the United States in the fore part of the year were such as to create a serious emergency and some form of public control became necessary if a complete breakdown were to be avoided. The emergency machinery was perforce hurriedly constructed. Without pattern or prior experience, experiments naturally followed. Under such conditions mistakes were to be expected and they have occurred.

Breakdown in the enforcement of emergency control laws and agreements has operated to penalize law observers and give advantage to law violators. Lack of enforcement is largely due to inherent weaknesses in control laws and regulations, which all well intentioned parties thereto are striving to correct.

Other divisions of the business were adversely affected by the burdensome milk surplus pressing for sale. This was particularly true of butter, into which product most of the surplus milk flows. The resulting over-production brought on falling markets during the year, culminating in a violent price collapse in mid-December. At the close of the year distress butter markets and prices prevailed with consequent telling effect on inventory values.

The foregoing conditions peculiarly affecting the dairy industry, superimposed upon the generally adverse conditions and reduced buying power affecting all business, account for the further decrease in sales and income herein shown, despite the further economies and greater efficiency accomplished during the year.

It is gratifying to note the Company's strength as reflected in the Balance Sheet herewith presented.

Sales

Sales for the year amounted to $186,301,203.17 compared with $212,348,871.24 for 1932, a sales value decrease of 12¼ per cent and a sales tonnage decrease of 7⅛ per cent.

Net Income and Earnings per Share

Net Income of $4,646,443.78 is 2½ per cent of sales and $1.05 per share on all of the Capital Stock outstanding December 31, 1933. This compares with Net Income of $1.71 per share in 1932.

Net Income on Canadian and Export sales has been adjusted to the United States dollar value and all exchange losses have been absorbed in the year's operations.

Net Working Capital

This item at the close of the year stood at $41,445,809.05 compared with $39,726,942.17 on December 31, 1932.

The ratio of Current Assets to Current Liabilities on December 31, 1933 was $4.80 to $1.00, which compares with a ratio of $4.72 to $1.00 on December 31, 1932.

Foreign exchange values in countries in which we have capital employed were at par or better at the year end; therefore, all asset and liability items in foreign jurisdictions are reported at par of United States dollar without benefit to 1933 operating results.

Cash on hand was considerably in excess of the total of all Current Liabilities and amounted to $13,611,848.55 on December 31, 1933, which compares with $15,692,826.52 on hand December 31, 1932.

This cash decrease is more than accounted for by the larger investment in inventories and a $1,000,000.00 payment on the mortgage covering Madison Avenue Office Building property, which anticipation was the maximum acceptable to the mortgagee. A change in the terms reduces the annual interest rate on the $1,700,000.00 balance of the mortgage from 5% to 4½%, effective from the date of prepayment, November 29, 1933.

Frozen and restricted deposit funds, aggregating $275,355.62 gross at December 31, 1933, are not included in cash. Reserve provision is made for the estimated loss involved and the net balance is carried under Miscellaneous Assets.

Inventories of $19,936,770.61 were greater by $7,156,104.78 than those of December 31, 1932. This increased commodity investment reflects both higher costs and much larger quantities, including substantial purchases and deliveries thereof in anticipation of known 1934 requirements.

At the close of the year the aggregate of market values above cost was large, as was the aggregate of market values below cost (the latter being principally due to distress values of butter, previously referred to herein). The net difference was comparatively small. However, since on December 31, 1933 all inventory items are, as usual, valued at the lower of cost or market, the favorable factor of market values over cost is ignored and, therefore, without benefit to income, while the unfavorable factor of abnormally low market values below cost is given full recognition and the values written down accordingly and charged to operations.

Marketable Securities of high investment rating, a substantial proportion being United States Government securities, and including material holdings of Canadian Government securities, taken at their December 31, 1933 market value, amounted to $6,241,014.35 compared with $8,777,071.56 on December 31, 1932.

Included in the last appropriations from Surplus, which were made in 1931, two Reserves were created, one for the absorption of losses and unsustained depreciation on Marketable Securities, the other for the adjustment to their United States dollar value of aggregate Net Current Assets remaining in foreign countries. Although the credit balance of the first named Reserve was more than adequate on December 31, 1933 to absorb the variation between cost and market value on that date, it was deemed best to defer the return to Surplus of any excess provision remaining therein until such time as we experience a less variable securities market. The Foreign Exchange Reserve, amounting to $854,262.83, has been returned intact to Surplus, as shown on page 10 of this Report, since the circumstances which necessitated its creation and continuance did not exist at the close of 1933. Current operations have not benefited by use of these Reserves.

While collections were somewhat improved, they are still unsatisfactory. However, all credit losses have been charged off and adequate Reserves against future losses have been created by charges to operations, thus leaving Receivables in a healthy condition.

Property, Plant and Equipment

The net depreciated and adjusted value of this item on December 31, 1933 is $92,251,249.37 as compared with $98,678,333.01 on December 31, 1932.

Depreciation charges to operations during 1933 amounted to $7,777,995.09.

All operating properties were maintained in excellent physical condition, necessary replacements were made, and seemingly wise expenditures in the interest of quality protection, co-ordination and efficiency were not withheld. Improvement and, where necessary, extension work was carried on, but at a much reduced pace.

Property expenditures of every nature continued to be controlled by a conservative policy of accounting.

The further reduction of Gross Values and Reserves during 1933 was for the same principal reasons as more specifically set forth in our 1932 Report, viz., the removal under both captions of all property and equipment becoming 100% depreciated and, as well, the respective amounts therein affecting all property disposed of and all values scrapped during the year.

In all other respects the charges and credits to Gross Values and Reserves have been of a regular nature.

Reference is made to the 1932 Report to Stockholders as setting forth the Company's policy regarding the matter of property values generally.

The Budget of Capital Expenditures for 1934 as approved by the Board of Directors, while providing fully for all necessary replacements and, as well, certain further expenditures in the interest of co-ordination and efficiency, is well within the usual depreciation charges for the year.

Capital Stock

Of the Authorized Capital Stock of 8,000,000 shares of $25.00 par value each, and an aggregate par value of $200,000,000.00, there was outstanding on December 31, 1933 $109,917,600.00 par value, represented by 4,396,704 shares, as compared with $109,918,850.00 represented by 4,396,754 shares on December 31, 1932.

The net decrease in outstanding Capital Stock for the year, amounting to $1,250.00 and 50 shares, is accounted for as follows:

> Fifty shares were received from Vendor interests in full settlement of claim against them under Guaranty Agreement, dated April 1, 1930. These shares were added to Treasury Stock, which latter is deducted from Issued Stock.

The Capital structure continues without any outstanding securities senior to the Common Stock of The Borden Company.

The stock outstanding December 31, 1933 was held by 37,916 Stockholders, with an average holding of 116 shares, which compares with 36,236 Stockholders with an average holding of 121 shares on December 31, 1932.

The number of Stockholders as of December 31st for each of the past seven years follows:

1927	5,664
1928	9,482
1929	17,167
1930	24,383
1931	32,383
1932	36,236
1933	37,916

As measured by business results, the splendid work of the Organization throughout the year seemingly was not adequately rewarded, but as measured by sincere, sustained effort under trying conditions, reflected in improved service and general progress, theirs was a year of success. For this the Directors and Officers express their grateful thanks.

Respectfully submitted,

Arthur W. Milburn
Chief Executive
and
Chairman Executive Committee

The Borden Company *and all* Subsidiary Companies

Consolidated Balance Sheet, December 31, 1933

ASSETS

Property, Plant and Equipment:		
Including Madison Avenue and Hudson Street Office Building Properties (Values are based on cost or on field surveys by Company's engineers, supplemented where necessary by independent appraisals, with subsequent additions at cost)		$150,460,798.14
Less:		
Reserves for Depreciation		58,209,548.77
Net Property, Plant and Equipment		$ 92,251,249.37
Current Assets:		
Cash	$13,611,848.55	
Marketable Securities (at market or less)	6,241,014.35	
Receivables (Including salary advances to employees of $63,129.31) — Less Reserve for Doubtful Accounts	12,550,006.65	
Finished Goods (at the Lower of Cost or Market)	13,912,269.65	
Raw Materials and Supplies (at the Lower of Cost or Market)	6,024,500.96	52,339,640.16
Mortgages and Other Receivables—Not Current (Resulting principally from sales of Property)		2,667,787.37
Prepaid Items and Miscellaneous Assets		1,335,435.95
Trade-Marks, Patents and Good-Will (At less than actual purchase cost)		7,000,000.00
Total		$155,594,112.85

The Borden Company *and all* Subsidiary Companies

Consolidated Balance Sheet, December 31, 1933

LIABILITIES

Mortgage—Madison Avenue Office Building Property			$ 1,700,000.00
Current Liabilities:			
Accounts Payable		$8,512,004.90	
Accrued Accounts:			
Taxes (Including Income Taxes—Estimated)		1,123,769.89	
Other Items		1,258,056.32	10,893,831.11
Deferred Credits			390,631.71
Total			$ 12,984,462.82
Capital Stock—The Borden Company:			
Common $25. par (Authorized 8,000,000 shares)			
Issued	4,417,958 shares		
Less Treasury Stock	21,254 "		
Outstanding	4,396,704 "	$109,917,600.00	
Reserves:			
Contingency Reserve		2,664,009.48	
Insurance and Other Operating Reserves		5,009,294.89	
Earned Surplus		25,018,745.66	
Total Capital Stock, Reserves and Surplus			142,609,650.03
Total			$155,594,112.85

The Borden Company *and all* Subsidiary Companies

Statement of Consolidated Income and Surplus

For the Year Ended December 31, 1933

Sales:		
(This figure is after deducting returned goods and intercompany sales)		$186,301,203.17
Cost of Sales and Expenses:		
(Including provision for depreciation in the amount of $7,777,995.09, insurance, property taxes and all manufacturing, selling, delivery, administrative and general expenses, after deducting miscellaneous operating income)		182,639,994.89
Net Operating Profit		$ 3,661,208.28
Add:		
Other Income (Less charges for Interest)	$609,057.67	
Excess Provision for Fire Insurance Reserve previously charged to operations	421,177.83	1,030,235.50
Gross Income		$ 4,691,443.78
Deduct:		
Income Taxes (estimated)	$345,000.00	
Less Excess Provision for Income Taxes previously charged against Income	300,000.00	45,000.00
Net Income		$ 4,646,443.78
Earned Surplus, January 1, 1933		26,552,785.45
Surplus Credit:		
Return of provision for the writing down to the United States dollar basis of the net current assets of foreign subsidiaries remaining in foreign countries. This amount was charged to Earned Surplus in 1931. (All actual losses on foreign exchange remittances have been absorbed in operations). See comment on page 6		854,262.83
Gross Surplus		$ 32,053,492.06
Surplus Charge—Dividends paid in cash during the year 1933 (This amount includes $151,892.20 representing the 5% Excise Tax withheld and remitted to United States Government, pursuant to the National Industrial Recovery Act)		7,034,746.40
Earned Surplus, December 31, 1933		$ 25,018,745.66

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

22 EAST 40TH STREET
NEW YORK

AUDITORS' CERTIFICATE

THE BORDEN COMPANY:

We have made a general audit of your accounts and those of your subsidiary companies for the year ended December 31, 1933. In connection therewith we examined or tested the accounting records of the companies and other supporting evidence.

We verified the accounts representing cash balances and securities owned, either by examination of such assets or by obtaining certifications from depositaries.

The charges to property accounts have been controlled by a conservative policy. In our opinion, adequate reserves have been provided for depreciation of property and for probable losses, and full provision has been made for all known liabilities.

The inventories of finished goods and raw materials and supplies represent quantities shown by inventory records which are adjusted from time to time to agree with physical inventories. The inventory records were examined by us and appear to be correct. All inventory valuations are based upon cost or market, whichever was lower.

In the accompanying statement of consolidated income and surplus for the year ended December 31, 1933, there is included in net income, as set forth in the statement, the return to net income of excess provision for fire insurance reserve previously charged to operations, and excess provision for income taxes previously charged against income.

In our opinion, subject to the foregoing, the accompanying consolidated balance sheet and related statement of consolidated income and surplus of The Borden Company and its subsidiaries fairly set forth, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition as of December 31, 1933, and the results of their operations for the year ended that date.

HASKINS & SELLS.

New York, February 26, 1934.

BORDEN

Borden's

1857

ASSOCIATED COMPANIES

PRINTED IN U.S.A.